NSC BRIEFING 7 AUGUST 1956

BACKGROUND: THE EGYPTIAN ECONOMY

1. Viability: The Nasr government has had only limited success in its efforts to develop Egypt's resources. The keystone in the regime;s development program is the Aswan High Dam, designed to increase the arable land by 15 percent and relieve the heavy population pressure of 23 million people living in an area where population density is more than double that of the most densely populated state in the US.

A. The national income of Egypt in 1955 was less than $2.5 billion, considerably less than 1 percent of US national income. Per capita income is only slightly more than $100. The Egyptian national income has been growing somewhat during the last few years, but the daily per capita food consumption is till no more than 2,300 calories.

B. The population of Egypt has doubled in the last 50 years, and at its present growth rate of about 2.5 percent per year will double in another 30 years. Seventy percent of the population is illiterate.

2. Agriculture: More than 75 percent of the population depend directly upon the land and are supported by agriculture. Agriculture constitutes about one-third of national income. Most of Egypt is desert; only 3 percent of the land is arable, and most of this is under cultivation.

A. Cotton is the most important crop, accounting for 25 to 35 percent of the value of agricultural output and for 80 percent of country's foreign exchange earnings. Egypt produces 60 percent of the world's extra-long staple, 45 percent of the long and medium staple, but only 5 percent of total world cotton.

B. Cereals, especially wheat and maize, occupy about 50 percent of the cropped area. Even so, Egypt is far from self-sufficient and imports about one-fourth of its wheat consumption, although a bumper crop in 1954-1955 made wheat imports temporarily unnecessary.

C. With continual population pressure, the agricultural situation must be characterized as increasingly severe. Since 1937, the population has increased by 45 percent, but cropped area by only 15 percent. Although the government, through land reclamation and plans for the Aswan High Dam, is attempting to add to the arable land, even successful accomplishment of Egyptian plans in agriculture would leave the country in about its present situation in view of the predicted population growth.

3. Industry: Egypt has only limited industry and but small industrial potential. Cotton textiles and food and beverages are the most important manufactured products. Other industries include apparel manufacture and building materials.

A. Egypt is attempting to diversify and expand its industry. The most ambitious specific projects are a steel mill (265,000 ingot ton capacity, to be completed in 1957) and a fertilizer plant. One of the principal deficiencies standing in the way of industrialization is a severe shortage of fuels and power. Egypt's energy resources consist largely of a hydroelectric potential associated with Nile dams. Petroleum constitutes about 35 percent of current

energy consumption, but is largely imported. It is unlikely that Egypt's resources will permit anything other than a modest industrial development.

B. Egypt has only limited capabilities in arms manufacture, confined to small arms and light artillery. Military expenditures (exclusive of the arms deal with the Soviet Bloc) consume as much as 7 or 8 percent of Egyptian national income at the present and represent a drain on Egyptian industry and manpower. The arms-for-cotton deal with the Bloc will absorb a significant portion of Egyptian cotton exports.

4. Foreign Financial Relations

A. Foreign Trade: Egypt is heavily dependent on its foreign trade, which is equal to about one third of its national income. Half of the country's agricultural products are exported. Cotton accounts for 80 percent or more of exports. Rice and cotton are the only other significant exports. On the import side, capital goods, fertilizers, and wheat predominate.

(1) The principal trading partners of Egypt have been on the export side, India (9-12 percent of total exports), France (9-12 percent), the US (3-10 percent), and Czechoslovakia, Communist China, Japan, West Germany, Great Britain, and Italy (all about 5 percent). Great Britain, the US, West Germany, Italy, and France provide well over 50 percent of imports.

(2) There has been a noticeable increase in Egyptian economic relations with the Sino-Soviet Bloc. Even excluding the Bloc arms deal, Bloc trade with Egypt was up 70 percent in 1955 over 1954. If the arms deal of over $200 million is included, the increase was more than 200 percent. Egyptian exports to the Bloc, in 1955, principally cotton and rice, were nearly 30 percent of total exports, and imports from the Bloc, excluding arms, were about 7 percent of the total. Until 1954-1955, wheat was a principal import from the Bloc; following Egypt's bumper crop in 1955, petroleum products and mineral fuels replaced wheat as animport.

(3) Since cotton accounts for over 80 percent of Egypt's exports, the country is at the mercy of fluctuating world cotton prices, and ispotentially vulnerable to the actions of the US in this market. The Bloc,has, however, absorbed increasing quantities of Egyptian cotton. In the 1955-1956 crop year, Bloc imports of Egyptian cotton increased 107 percent and the Bloc is now taking a third of Egyptian cotton. In the same period, the increase of Egyptian cotton by non-Bloc countries was only 23 percent.

B. Assets: Egypt has had a steady trade deficit in the post-war period. At present Egypt has $425,000,000 in foreign exchange, $175,000,000 in gold, and possibly as much as $75,000,000 in dollar holdings. Great Britain, France, and the US have frozen Egyptian assets under their control, a move which in the short run will hamper Egyptian trade. Great Britain and France, however, each have assets worth more than $1 billion in Egypt.

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C. Soviet Bloc Penetration Efforts: The Bloc has made extensive efforts to infiltrate the Egyptian economy. However, there is no evidence that the Bloc is able to exercise a decisive role in the operations of the economy. The most pervasive Bloc influence is through trade, which has increased sharply, and through arms shipments. The USSR has made vague offers on the Aswan High Dam. Also indicative of the extensive Bloc interest in Egypt are the sending of Soviet engineers and the construction, now under way, of an enamelware plant by Poland, a power plant by Hungary, a sugar refinery by East Germany, a rubber plant and a cement plant by Czechoslovakia, and other projects. Bloc credit contracts with Egypt over the past two years, excluding the arms deal, total about $35 million. US aid since 1951 has been $103.5 million, including $19.9 million in technical assistance, $40 million in development assistance, and $38 million for relief.

5. The Canal and Aswan Dam: Egypt, as a result of the nationalization of the Canal, will probably receive an additional $40 million in foreign exchange if present traffic and rates prevail, and assuming stockholders are not reimbursed. If the canal toll rates are doubled (this would have been permissible under the Canal Company charter and probably would not significantly affect the traffic flow), Egypt probably would net more than $100 million a year in foreign exchange from the canal. This revenue would still not be enough for egypt to undertake construction of the Aswan High Dam without some outside assistance. However, if Egypt nets $100 million a year from the Canal, can avoid paying off Canal Company stockholders in the near future, uses its gold holdings, and can get some of its sterling and dollar accounts unfrozen, then it could, withonly modest outside assistance, undertake large-scale construction on the Aswan dam without bringing economic activity to a standstill.